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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 003523

SIPDIS

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TAGS: [FAIR](#) [PREL](#) [ECON](#) [CH](#) [TW](#)

SUBJECT: CROSS-STRAIT CHARTER FLIGHTS - AIRLINES

UNENTHUSIASTIC, TIME RUNNING OUT

REF: A. 2003 TAIPEI 219

[B](#). 2004 TAIPEI 84

[C](#). 2004 BEIJING 17510

Classified By: Acting AIT Director David J. Keegan, Reason 1.4 (B/D)

Summary

[1](#). (C) Largely for symbolic reasons, the Taiwan government is pushing once again for cross-strait charter flights to bring Taiwan investors in the Mainland home to Taiwan for Lunar New Year 2005. After losing money in 2003 and never getting off the ground in 2004, Lunar New Year charter flights in 2005 are not commercially attractive to Taiwan's air carriers. Taiwan has shown some readiness to overcome Beijing's objection to 2004 charter flights, but they remain reluctant to allow full participation for Chinese airlines. Taiwan's carriers can make much more money on other routes during the busy Lunar New Year travel season, but if the Taiwan government asks them to participate, they will comply. Nevertheless, Taiwan's December 11 legislative elections could prevent charter flights from returning this year. Taiwan airline officials have warned us that unless the Taiwan government reaches an agreement with the PRC soon, there wouldn't be time to arrange the flights. Mainland Affairs Council (MAC) Chairman Joseph Wu told AIT/T that Beijing has shown a willingness to move forward on charter flights, but not before the December 11 Legislative Yuan (LY) elections. Charter flights are still a possibility, but the clock is ticking and will run out very quickly after the elections. (End Summary)

Lost Money in 2003, Grounded in 2004

[2](#). (U) In February 2003, the six Taiwan airlines made history by successfully completing Lunar New Year charter flights between Shanghai and Taipei via Hong Kong and Macau to provide transportation for Taiwan businessmen and their families in the PRC (ref A). Charter flights could not be arranged in 2004 for four main reasons: 1) the PRC demanded that its carriers be allowed to participate, 2) Taiwan insisted on semi-official talks to arrange the flights, 3) Taiwan's carriers were reluctant to participate in a venture that was likely to be unprofitable, and 4) the political situation at the time was particularly tense leading up to Taiwan's presidential election (ref B).

[3](#). (U) President Chen in his October 10 National Day speech this year and the Mainland Affairs Council (MAC) on several occasions in the last month have publicly declared Taiwan is eager to implement cross-strait charter flights again during the Lunar New Year in February 2005. MAC has already taken steps toward resolving some of the problems that prevented charter flights in early 2004. MAC has said that Taiwan is willing to allow PRC airlines to participate. Moreover, both sides have indicated that industry representatives acting on behalf of government authorities can negotiate the conditions for charter flights. Government officials would probably act as unofficial advisors to industry representatives during discussions.

High Opportunity Costs in 2005

[4](#). (U) However, concerns about the profitability of Lunar New Year charter flights remain. Airline officials have told AIT that all of the airlines that participated in the 2003 charter flights lost money. Lunar New Year is the busiest time for airlines throughout Asia. They can make a lot of money on other routes that will be far more heavily booked and don't have spare equipment to dedicate to unprofitable charter flights.

[5](#). (U) The charter flights lost money primarily due to two factors. First, airlines were only allowed to carry passengers one-way each trip. At the start of the Lunar New Year, the airlines had to fly empty planes to Shanghai to pick up passengers. At the end of the holiday, after passengers returned to Shanghai, empty planes flew back to Taipei. On October 13 2004, MAC vice-chairman Chiu Tai-san

stated publicly that Taiwan would allow airlines to carry passengers both ways without an intermediate stop. Accordingly to airlines, this would significantly improve profitability.

16. (SBU) Airlines also lost money due to low passenger loads. Overall, the 2003 charter flights were only 70 percent full. The inaugural China Airlines (CAL) flight was only 30 percent full. Because the charter flights were arranged hastily, there was little time to market the flights. Lunar New Year is a busy travel time, and travelers book early. Eva Airlines (EVA) claims it did fairly well in 2003 and flew at near capacity. CAL officials told AIT/T that because of its experience in 2003 and more developed infrastructure in the Mainland, it would be easier for CAL to sell tickets for 2005 charter flights. Nevertheless, both airlines said that participation in charter flights in 2005 would hurt the carriers' bottom lines.

An Invitation They Can't Refuse

17. (SBU) Despite the likelihood of losing money, the six Taiwan airlines enthusiastically participated in the 2003 charter flights, if only for the public relations value. Having already reaped the publicity benefits, they will be less eager to participate in 2005. However, they are not likely to refuse the Taiwan government's invitation to participate if Taiwan and PRC can agree on the conditions. The government still owns about 70 percent of CAL's shares. In addition, airlines will want to facilitate any government effort to move closer to regular cross-Straits direct air links. CAL and EVA officials were both confident that if the government asks the airlines to conduct charter flights, all of Taiwan's carriers will participate.

Political Delay May Preclude Charters

18. (C) The election cycle is having an impact on the possibility of charter flights again. Both CAL and EVA officials told us that they do not expect to see any substantial progress on the negotiation of charter flights before the December 11 LY election. They also warned that if Taiwan and PRC authorities cannot reach an agreement almost immediately after the election, there would not be enough time for airlines to make the necessary arrangements. EVA officials told us that negotiating charter flight conditions would take much longer if PRC airlines participate. They speculated that Taiwan's Civil Aeronautics Administration (CAA) might require special inspections for PRC aircraft, possibly even require that CAA officials accompany the flights. One MAC official told us that it would be much easier to implement charter flights if the PRC backed away from insisting on PRC airline participation ostensibly as a humanitarian gesture for Taiwan businessmen in the Mainland.

19. (C) In its October 27 press briefing, the PRC's Taiwan Affairs Office pointed out that Taiwan had not yet identified local partners to work with Mainland organizations on charter flights (ref C). MAC Chairman Joseph Wu told AIT/T that they saw this pragmatic statement as a very positive sign from the PRC. Using an aviation industry contact as an unofficial channel, MAC inquired whether this comment represented a new opening and whether there was the possibility of moving forward before the December 11 LY elections. According to Wu, the PRC indicated that the statement was sincere, but that Beijing would not make any real policy adjustments until after the elections. MAC Senior Vice Chairman Chiu Tai-san speculated that the constructive October 27 statement may have been in response to Secretary of State Powell's request earlier in the week that Beijing show flexibility in its approach to Taiwan.

110. (C) Wu said that the Taiwan government will tone down its public statements on charter flights before the election for fear that a negative reaction from Beijing will allow the Taiwan Solidarity Union (TSU) to make cross-Straits issues a focus of the campaign. Wu said that MAC had informed Taiwan airlines that they could independently apply to PRC authorities for permission to conduct charters, per the 2003 practice, but has not explicitly urged them to do so. Under those conditions, airlines are unlikely to respond. In addition, MAC passed the word to PRC authorities that Mainland airlines could apply to Taiwan's Civil Aeronautics Administration for permission to conduct charter flights.

111. (C) Comment: These developments suggest that even though time is running out, there is still some possibility that charter flights could take place. A key indicator will be whether any Chinese airline takes up MAC's offer and approaches Taiwan civil aviation authorities about participating. We don't expect to see significant progress between now and December 11. If the Taiwan government is determined to see charter flights in February and moves very quickly after the election, there may still be time to make

it happen)- but not much. (End comment.)
PAAL